yesterday to the discussion on this. Though the Business Advisory Committee has said that we would sit at least up to six o'clock and, if necessary, even beyond in fact, we have been sitting up to 7 o'clock and even beyond—I understand that it was perhaps not convenient to the Minister and, therefore, the House had to be adjourned early. I presumed that it would continue today and, in fact, my colleague states that he had requested and his name was included in the list of speakers for today. But we find from the List of Business that this is not even listed and we find listed the Eighth Finance Commission Report which was scheduled to take place this week-end. But this has been included today. In all fairness, I should say that the discussion on the Approach Paper should have been concluded today and the Finance Commission's Report taken thereafter. Though there is no hard and fast rule, it is up to the Chairman, in consultation with the Leader of the House, to determine and I am aware of that. Generally speaking, this is the procedure and, if there is to be any departure from this, generally, consensus is taken. In this particlar case, Sir, my colleague had requested and the Chair had agreed that he would speak today and he has come prepared for that today.

THE LEADER OF THE HOUSE (SHRI PRANAB KUMAR MUKHERJEE): Sir, what he has said is correct. We decided that we would complete the discussion on the 7th Plan yesterday itself But, because of some difficulties amongst the colleagues, it could not be done. That is why I am saying that what he says is correct. But I am slating the discussion on that on some other day and it is not that the discussion will not take place.

MR. DEPUTY CHAIRMAN: Even otherwise the discussion on the Finance Commission's Report was scheduled for today.

SHRI PRANAB KUMAR MUKHERJEE: Today the Business Advisory Committee will fix the date. That discusion will take place.

SHRI LAL K. ADVANI: This could have been concluded today.

MR. DEPUTY CHAIRMAN: This item was earlier fixed for today.

SHRI LAL K. ADVANI: The Business Advisory Committee allocates time. It frames a tentative programme also But if a certain business is not completed on that day, it is continued the next day.

MR. DEPUTY CHAIRMAN: Sometimes we do not do so.

SHRI LAL K. ADVANI: I am sure you will appreciate I am aware of the Rules which allow you to change the date.

MR. DEPUTY CHAIRMAN: There are precedents when Bills are not fixed the next day and some other date is fixed.

SHRI PRANAB KUMAR MUKHERJEE: Let us discuss it in the Business Advisory Committee. We will sort it out in the Business Advisory Committee.

DISCUSSION ON THE REPORT (1984) OF THE EIGHTH FINANCE COMMISSION

THE MINISTER OF FINANCE (SHRI PRANAB KUMAR MUKHERJEE): With your permission, I beg to move:

> "That the Report (1984) of the Eighth Finance Commission together with an Explanatory Memorandum on the action taken by the Government on the recommendations contained therein, laid on the Table of the Rajya Sabha on the 24th July, 1984, be taken into consideration."

Sir, at this introductory stage I would not like to take much time of the House, but I would just like to draw the attention of the House to certain aspects of the major recom-

[Shri Pranab Kumar Mukherjee]

mendations of the Eighth Finance Commission. To speak the truth, the discussion on the Report of the Finance Commission itself is a new one, and perhaps there is no precedent, because what happens normally after the recommendations of the Finance Commission are made available and after the actions taken by the Government, those actions, either through the Presidential Notification or through the proposed amendment of the relevant legislation, are being discussed on the floor of the House. That has been the practice in the past. But this time, as the hon. Members are aware, we received an interim Report before we received the final Report of the Finance Commission on the 30th April 1984. When we concluded the budgetary exercise for the Budget 1984-85, the Report available before me was the recommendations contained in the interim Report. and I gave effect to those recommendations for the Budget proposals, as I thought that when the Report of the Eighth Finance Commission was finally available to us and thereafter Government considered the Report and come to conclusions it would not be possible to implement the recommendations of the Eighth Finance Commission for the current financial year 1984-85 and the effect will be given from the year 1985-86. Then I thought that apart from laying the Report on the Table of the House we should provide an opportunity to Members of both Houses to have a discussion on the Report itself. As the Report's recommendations concerning the Budget 1984-85 will not be implemented and necessary legislation will also not be brought now, it will be brought at the time of the next Budget. This is the reason why we are going to have a discussion on the Report of the Finance Commission through a substantive motion.

SHRI M. S. GURUPADASWAMY (Karnataka): But let there be a discussion on it every time. Even in future, let there be a discussion.

SHRI PRANAB KUMAR MUKHERJEE: If you want it, it is good. But I just narrated the past practice and why we are taking it up for discussion today and what is the justification for moving a substantive motion.

Sir, I would like to take this opportunity of expressing my gratitude to the Chairman of this Finance Commission who undertook the onerous responsibility and did a very good work in making their recommendations. The Memorandum submitted along with the Report clearly indicates that the Government has accepted almost all the major recommendations of the Commission, though we have taken a decision not to implement them from the year 1984-85. That would be a major debatable point. So, I am not going into the reasons and the justification for coming to that decision at this stage. In this connection, I would like to draw the attention of the House to some of the novel features of the recommendations of the Eighth Finance Commission. As all the hon. Members are aware, the Finance Commission took into account the population factor as an important factor while earlier working out the formula for devolution of taxes. The principal job of the Finance Commission is not only to distribute the resources between the Centre and the States, but also between the States and the quantum which is to be distributed between the States and which is to be retained by the Union Government. So far as Income-tax is concerned, the formula followed for quite a number of years is ten per cent on the basis of net assessment and 90 per cent on the basis of population. As hon. Members are aware, out of 100 per cent, 15 per cent goes to the Union exchequer and 81 per cent goes to the States and of that 85 per cent, if it is taken as a whole, then 10 per cent on the basis of net collection from the States and 90 per cent on the basis of population. So far as Excise Duty is concerned, the distribution was 25 per cent on the inverse of the per capita State domestic product, 25 per cent on the basis of number of poor population in each State, 25 per cent on the formula of

revenue equalisation and 25 per cent on the basis of population. That was the formula adopted by the Seventh Finance Commission. They decided that this should be the parametre according to which *inter se* distribution among the States would take place. This Finance Commission gave weightage to backwardness and while giving weightage to backwardness, they have worked out a new formula on the basis of which they have made *inter se* distribution among the States. So far as distribution between the Union and the States is concerned, in respect of Income-tax they have retained the same proportion which was recommended by the Seventh Finance Commission, *i.e.* 15 per cent to the Union and 85 per cent to the States and in respect of the Union Excise Duty, the earlier distribution was 40 per cent to be distributed among the States and 60 per cent to be retained by the Centre. The Eighth Finance Commission's recommendation is that Centre's share should be reuced from 60 per cent to 55 per cent and the States' share should be increased from 40 per cent to 45 per cent. Of that 45 per cent also, they have worked out a new formula where 40 per cent is to be distributed among the 22 States and 5 per cent is to be distributed among the 11 deficit States in order to meet a part of their revenue gap. The formula which they have accepted now regarding both the Income-tax and the Excise Duty is that they are giving a little lower weightage to the population in the sense that 25 per cent will be on the basis of population and 25 per cent on the basis of inverse per capita income multiplied by population. I am not explaining this formula because those who are interested in it know that this is the standard formula for distributing resources and giving assistance to the States. This time, the Finance Commission is recommending on the basis of difference between the highest per capita income and the per capita income of the States concerned and multiplied by population. In that formulation, the relatively backward States would get more and the relatively affluent States would get less. There has been some criticism, and it has been pointed out that some efficient States are penalised and some not so efficient States are being compensated at the cost of the relatively affluent States. Sir, I do not agree with this view and I do not subscribe to the contention mainly because of the fact that the affluence of a State or relatively better performance of the States to some extent would be obviously as a result of better management, but to a considerable extent it is because of the historical facts also. The economy which we inherited from the British system, from the British rulers for certain historical reasons was that there were some pockets of development in this country like Calcutta, Bombay and Madras, and large parts of the country were not at all developed and there was no attention paid at all. So, it was quite natural that after independence and after accepting the planned economy, it was thought that we must lay due emphasis on the development of backward areas. And the Eighth Finance Commission has put a concrete shape by giving weightage to the backwardness in the formula which I have just explained to you. In respect of the additional excise duty also, they have changed the formula. In respect of additional excise duty in lieu of sales tax earlier, as you know, on commodities—textiles, tobacco and sugar—a different type of formula was prescribed by the Seventh Finance Commission. But the Eighth Finance Commission has recommended a uniform percentage for all the three commodities—textiles, tobacco and sugar—which is fifty per cent on the basis of domestic production and fifty per cent on the basis of population. As a result of the recommendations of the Eighth Finance Commission, the net transfer to the States over a period of five years would be around Rs. 40,000 crores, to be precise Rs. 39,352 crores, which is almost double of Rs. 20,000 crores, the net transfer over a period of five years from 1979 to 1984 as recommended by the Seventh Finance Commission.

[Shri M. S. Gurupadaswamy]

As I mentioned earlier, I have accepted all the major recommendations of the Eighth Finance Commission. Obviously I could not accept one recommendation, and that was strictly speaking, not within the purview of the terms of reference. But still the Finance Commission made its recommendation. That is about the devolution of the surtax and merging it with income-tax. Obviously, we could not accept it because it provides a lot of resources to the Union Government, and the Constitution contemplated it. And in the relevant articles of the Constitution where they discussed which would be the areas of the Union taxation or the areas of the State taxation and what would be the distribution betwen the States and the Centre, over a period of years, we have built up a convention. The Finance Commission is a constitutional body, appointed by the President under the relevant provisions of the Constitution. But at the same time one point is to be kept in mind that it is not correct to say that every time every recommendation of every Finance Commission has been accepted by the Government in its entirety. There are a number of precedents and I would just like to draw the attention of the hon. Members to three major departures where the Finance Commission's recommendations were not accepted by the Government. On such recommendation by one Finance Commission was that 75 per cent of revenue gap of the States will have to be met through grant-in-aid That recommendation of the Finance Commission was not accepted by the Union Government. Another recommendation in respect of certain States was when they increased the salaries of certain employees And it was not taken into account by the Finance Commission but the Government took it into account while working out the devolution of the grant-in-aid. And the third major departure where the recommendation of the Finance Commission was not accepted was of the recommendation of the Seventh Finance Minister, Mr. H. M. Patel did not consider it feasible to accept the recommendation. The recommendation was that the entire loss caused by prohibition, if a State accepts the policy of prohibition, is to be compensated by the Union Government, and this recommendation was also not accepted. Apart from that, there have been a number of occasions where the recommendations of the Finance Commission were not accepted *in toto*. But, at the same time, the tradition which we have built up, we accept all the major recommendations and particularly the recommendations in respect of the devolution of taxes and in respect of grant-in-aid we have accepted the recommendations of all the Finance Commisions and this time also I have not made any departure from it in order to maintain and uphold the tradition which we have built up over a period of years. I have accepted the major recommendations.

1 P.M.

Sir, at this stage I would not like to deal in detail with the various recommendations. With these words, Sir, I commend the motion for discussion and invite the suggestions from the hon. Members.

The question was proposed.

SHRI NIRMAL CHATTERJEE (West Bengal): Mr. Deputy Chairman, Sir, I begin by thanking the Finance Minister.

MR. DEPUTY CHAIRMAN: Mr. Chatterjee, you may continue after lunch Yes, the Message from Lok Sabha.

MESSAGE FROM THE LOK SABHA

III. The National Security (Second Amendment) Bill, 1984

SECRETARY-GENERAL: Sir, I have to report to the House the following message received from the Lok Sabha signed by the Secretary-General of the Lok Sabha:

"In accordance with the provisions of Rule 96 of the Rules of Procedure